

OFFICE OF THE INSPECTOR GENERAL
COMMODITY FUTURES TRADING COMMISSION

SEMIANNUAL REPORT
FOR THE PERIOD FROM
April 1, 1997 THROUGH September 31, 1997

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SUMMARY OF OIG ACTIVITIES

AUDITS

The primary objectives of the Office of the Inspector General (OIG) are to help promote long-term efficiency and effectiveness in the administration and operation of the Commission and to protect against fraud and abuse. This reporting period's OIG audit activities which are listed below reflect these objectives.

Current Audits

The following are the audits being conducted during the current reporting period and continuing into the next reporting period. (For additional details, see the section on current audits beginning on page 16.)

Review of Enforcement Information Requirements. The objectives of this review are to determine what the information needs of all levels in the Division of Enforcement are, whether the information needs are being met, and if the required information can be created, stored, and retrieved in a more effective and efficient manner. (For additional details, see the section on current audits on page 17.)

Audit of Compliance with the Federal Managers' Financial Integrity Act. In support of OMB Circular A-123 (Revised), the Inspector General will evaluate, provide technical assistance, and advise the agency head as to whether the agency's review and evaluation process was conducted in accordance with the circular's requirements. (For additional details, see the section on current audits on page 18.)

Imprest Funds. The OIG will conduct final audits of the Chicago and Kansas City imprest funds. (For additional details, see the section on current audits on page 18.)

Completed Audits

The following are the audits completed during this reporting period. (For additional details, see the section on completed audits on page 6.)

Audit of Imprest Fund -- Kansas City. The OIG determined that all funds were properly accounted for, the amount of the fund was not in excess of cash requirements, the cashier was generally following procedures that adequately protect the funds

from loss or misuse, and the cashier was not making unauthorized use of the fund. (For additional details, see the section on completed audits on page 6.)

Audit of Imprest Fund -- Chicago. The OIG determined that all funds were properly accounted for, the amount of the fund was not in excess of cash requirements, the cashier was generally following procedures that adequately protect the funds from loss or misuse, and the cashier was not making unauthorized use of the fund. (For additional details, see the section on completed audits on page 7.)

Final Audit of Imprest Fund -- New York. The OIG determined that all funds were properly accounted for, the cashier followed procedures that adequately protected the funds from loss or misuse, and the cashier did not make unauthorized use of the fund. The fund was properly liquidated on June 17, 1997. (For additional details, see the section on completed audits on page 8.)

Cash Verification of Imprest Fund - Washington, D.C. The OIG found that all funds were accounted for. (For additional details, see the section on completed audits on page 8.)

Use of Commission Vehicles. The review disclosed that the vehicles were used to pick up and deliver supplies and transport Commission personnel. However, because several records were either missing or incomplete, OIG was unable to determine whether any misuse of the vehicles took place.

(For additional details, see the section on completed audits on page 9.)

INVESTIGATIONS

The Inspector General Act of 1978, as amended, provides that the Inspector General may receive and investigate complaints or information from the Commission's employees concerning the possible existence of an activity constituting a violation of law, rules or regulations, or mismanagement, abuse of authority, or gross waste of funds, or a substantial and specific danger to the public health and safety.

No investigations were pending as of the beginning of the reporting period. The OIG opened one investigation during the reporting period and completed one investigations. No investigations remained open at the end of the period. (For more detailed descriptions of these investigations, see the section on investigations beginning on page 9.)

LEGISLATIVE AND REGULATORY REVIEWS

The OIG reviews proposed and final CFTC regulations and legislation and selected exchange rules using the following basic criteria: Whether the agency: (1) has identified specifically the problem(s) to be addressed by the proposal; (2) has defined through case study or data analysis a clear link between the proposed solution and the identified problem(s); (3) has specified clearly the means to effectively and efficiently enforce the proposal; (4) has assessed the likely efficiency and effectiveness of alternative solutions; (5) can reasonably document that the proposal will yield positive net benefits over the long term; and (6) has met the requirements of the Regulatory Flexibility Act and the Paperwork Reduction Act.

The Regulatory Flexibility Act requires the agency to evaluate the impact of its regulations on small entities. The Paperwork Reduction Act requires the agency to manage effectively and efficiently its information collections so that they are the least burdensome necessary to achieve the stipulated objectives. (For more detailed descriptions of these reviews, see the section on legislative and regulatory reviews beginning on page 11.)

Regulations reviewed during this period include:

- Proposal to Permit Agricultural Trade Options, and the
- Proposed Rule Amendments Relating to Risk Disclosure Documents.

<h2>OIG RESPONSIBILITIES</h2>

The Office of the Inspector General in the Commodity Futures Trading Commission (CFTC) was created in accordance with the Inspector General Act of 1978 (P.L. 95-452), as amended by the Inspector General Act Amendments of 1988 (P.L. 100-504). The OIG was established to create an independent unit to:

- Promote economy, efficiency, and effectiveness in the administration of CFTC programs and operations and to detect and prevent fraud and abuse in such programs and operations;
- Conduct and supervise audits and, where necessary, investigations relating to the administration of CFTC programs and operations;

- Review existing and proposed legislation and regulations and make recommendations concerning their impact on the economy and efficiency of CFTC programs and operations or the prevention and detection of fraud and abuse; and
- Keep the Chairman and Congress fully informed about any problems or deficiencies in the administration of CFTC programs and operations and provide recommendations for correction of these problems or deficiencies.

Given that the CFTC does not have extensive contracts or grant making authority, the OIG's efforts have been focused on the review of legislative and regulatory proposals and the monitoring of internal CFTC operations.

OIG RESOURCES

The OIG consists of the Inspector General, two professional staff members, and a secretary. The present Inspector General assumed his position on October 7, 1990.

The OIG, on December 4, 1989, signed a Memorandum of Understanding with the Office of General Counsel (OGC). This Memorandum details the procedures that will be used to provide the OIG with OGC legal services. An OGC staff member has been assigned to provide such services to the OIG on an as-needed basis.

CFTC PROGRAMS AND OPERATIONS

The CFTC was established in 1974 as an independent agency to regulate commodity futures and options trading in the United States.

The CFTC is headquartered in Washington, D.C., with additional offices in Chicago, New York, Kansas City, Los Angeles, and Minneapolis.

The basic objectives of the CFTC are to prevent manipulation of the markets, abusive trade practices, and fraudulent activities; to maintain effective oversight of the markets and self-regulatory organizations; and to enforce the Commodity Exchange Act and Commission rules without hindering the futures markets' provision of price discovery and risk shifting services. The CFTC regulates the futures activities of brokerage firms, salespersons, floor brokers, floor traders, commodity pool operators, commodity trading advisors, introducing brokers, and leverage transaction merchants. In

addition, the agency ensures the effective enforcement of exchange rules, reviews the terms and conditions of proposed futures contracts and the registration of firms and individuals who provide advice or handle customer funds, and oversees the activities of the National Futures Association.

COMPLETED WORK

AUDITS

The OIG is required to conduct, supervise and coordinate audits of CFTC programs and operations and to ensure that the audits are conducted in accordance with generally accepted government auditing standards. The OIG is also required to recommend changes to existing and proposed CFTC programs and operations to promote economy, efficiency, and effectiveness and to prevent and detect fraud and abuse.

The purpose of these audits is to ensure that:

- Funds have been expended in a manner consistent with related laws, regulations, and policies;
- Resources have been managed effectively and efficiently;
- Stipulated program objectives have been achieved; and
- Resources have been safeguarded.

The following audit reports have been issued during the reporting period.

1. Audit of Imprest Fund -- Kansas City.

Objectives.

The purpose of the audit is to determine whether the imprest fund is being administered in compliance with the Department of the Treasury Manual of Procedures and Instructions for Cashiers (Treasury Manual), the Treasury Financial Manual (I TFM 4-3000), and CFTC Instruction 344-1. The audit is designed to ensure that all funds are properly accounted for, the amount of the fund is not in excess of cash requirements, the cashier is following procedures that adequately protect the funds from loss or misuse, and the cashier is not making unauthorized use of the funds. The audit covered the period from April 24, 1996 through April 28, 1997.

Results.

A report issued on June 11, 1997 disclosed that all funds were properly accounted for, the amount of the fund was not in excess of cash requirements, the cashier was following procedures that adequately protect the funds from loss or misuse, and the cashier was not making unauthorized use of the fund. Use of the fund was discontinued effective February 3, 1997. Consequently no recommendations were made.

2. Audit of Imprest Fund -- Chicago.

Objectives.

The purpose of the audit is to determine whether the imprest fund is being administered in compliance with the Department of the Treasury Manual of Procedures and Instructions for Cashiers (Treasury Manual), the Treasury Financial Manual (I TFM 4-3000), and CFTC Instruction 344-1. The audit is designed to ensure that all funds are properly accounted for, the amount of the fund is not in excess of cash requirements, the cashier is following procedures that adequately protect the funds from loss or misuse, and the cashier is not making unauthorized use of the funds. The audit covered the period from April 30, 1996 through April 30, 1997.

Results.

A report issued on June 30, 1997 disclosed that all funds were properly accounted for, the amount of the fund was not in excess of cash requirements, the cashier was following procedures that adequately protect the funds from loss or misuse, and the cashier was not making unauthorized use of the fund. Use of the fund was discontinued effective June 2, 1997. Consequently no recommendations were made.

3. Final Audit of Imprest Fund -- New York.

Objectives.

The purpose of the audit was to determine whether the imprest fund was liquidated in compliance with the Department of the Treasury Manual of Procedures and Instructions for Cashiers (Treasury Manual), and the Treasury Financial Manual (I TFM 4-3000). The audit was designed to ensure that all funds were properly accounted for, the cashier followed procedures that adequately protected the funds from loss or misuse, and the cashier did not make unauthorized use of the funds during the period that the imprest fund was in operation. The audit covered the period from June 5, 1996 through June 17, 1997.

Results.

A report issued on July 18, 1997 disclosed that all funds were properly accounted for, the cashier followed procedures that adequately protected the funds from loss or misuse, and the cashier did not make unauthorized use of the fund. On June 17, 1997, the fund was liquidated and the total amount was deposited to CFTC's account at the U.S Treasury.

4. Cash Verification of Imprest Fund - Washington, D.C.

Objectives.

In accordance with the "Manual of Procedures and Instructions for Cashiers" distributed by the Department of the Treasury, the Commission is required to conduct an unannounced verification of the cash balance in each imprest fund at least once each quarter.

Results.

No deficiencies were noted in the May 13, 1997 cash verification of the Washington, D.C. imprest fund.

5. Use of Commission Vehicles

Objectives.

The purpose of this review was to determine whether the CFTC's Government leased motor vehicles were being used for official purposes only. The period covered by the review was from August 26, 1996, through July 7, 1997.

Results.

A report issued on August 22, 1997 disclosed that the vehicles were used to pick up and deliver supplies and transport Commission personnel. However, because several records were either missing or incomplete, OIG was unable to determine whether Any misuse of the vehicles took place. OIG recommended a number of changes in procedures in order to assure that a complete record of vehicle usage is maintained.

INVESTIGATIONS

The Inspector General Act of 1978, as amended, provides that the Inspector General may receive and investigate complaints or information from the Commission's employees concerning the possible existence of an activity constituting a violation of law, rules or

regulations, or mismanagement, abuse of authority, or gross waste of funds, or a substantial and specific danger to the public health and safety.

There were no investigations pending as of the beginning of the reporting period. The OIG opened and closed one investigation during the reporting period. No investigations remained open at the end of the period.

An anonymous letter alleging abuse of government time and telephone privileges by an employee of the Commission was referred to the OIG by the Chairperson. The subsequent OIG review of the pertinent telephone records disclosed a limited number of calls which could be personal. This matter was discussed with the employee who admitted the personal nature of those calls, acknowledged the violation of government rules, and agreed to cease making such calls. The OIG determined that the number and length of the calls and the minimal expense involved was not sufficient to require further action. Accordingly, this investigation was closed.

In response to an e-mail complaint by an employee that the CFTC process for dealing with requests for reasonable accommodation for disabled employees was not being properly followed in her case, the OIG obtained relevant documentation of the agency's dealings with the complaint. An analysis of this documentation indicated that the agency was following the prescribed course of action specified in its internal instruction. The OIG informed the employee that, in personnel matters, where there is a reasonable, functioning agency process established to deal with particular types of matters and there is no indication that the process is not being followed, the OIG, as a matter of policy, does not interfere with the process. The OIG informed the employee that our information was that there was a process in place and that the agency was following the requirements of the process to deal with her request. In the absence of information indicating a failure to follow the prescribed process, the OIG closed this investigation.

An employee of the Commission informed us that a former CFTC employee claimed that a current CFTC employee had sent him a lewd graphic via e-mail. This former employee had not provided any evidence to support his allegation. The OIG wrote an e-mail to the former employee asking him to help us to verify his claim by sending a copy of the offending e-mail to our office. In reply, the former employee repeated his unsubstantiated charge, did not supply the requested copy of the e-mail which led him to believe that a CFTC employee sent the offending graphic to him, and requested that the matter be dropped. In the absence of more complete information to be supplied by the former employee, the OIG closed the investigation.

LEGISLATIVE AND REGULATORY REVIEWS

As specified in Section 4(a)(2) of the Inspector General Act of 1978, the OIG reviews the impact of existing and proposed legislation and regulations on CFTC programs and operations and makes recommendations regarding more effective or efficient alternatives or protections against fraud and abuse. The OIG also reviews exchange rule proposals and changes.

The OIG has notified the responsible Division as to any concerns with draft and final documents for the legislation, rules or investigations listed below. Formal comments were not filed with the Commission. A summary of the principal legislation, regulations and investigations reviewed and the OIG review results follows.

RULE REVIEWS INITIATED IN PREVIOUS REPORTING PERIODS

1. Proposed amendments to allow certain customer orders to be placed without specified customer account identification. (CFTC Rule 1.35(a-1)).

Summary of Rule.

The CFTC proposed amendments to Regulation 1.35 that would permit orders submitted on behalf of multiple customer accounts not to have individual identifying account numbers if the person placing the orders has investment discretion as to each account and the executing FCM has a single series designation for all the accounts. The designation has to contain a predetermined order allocation applicable to all listed individual accounts.

The amendments would also permit specified institutional accounts for certain futures and options orders to be exempt from the account identification requirement if executed as part of an intermarket strategy involving securities. Such orders would have to be allocated no later than the deadline for final submission of trade data to clearing on the day the order is executed.

OIG Review.

OIG commented on various sections of the rule and its accompanying explanation. The comments focused on the coverage of the institutional accounts and the reach of disqualifying interest in the specified accounts. Staff drafted a proposed notice of interpretation and approval order interpreting regulation 1.35(a-1)(2)(i) account identification requirements as they pertain to bunched orders and approving an NFA interpretive notice.

2. Exemption from Dual Trading Prohibition (CFTC Rule 155.5(d))

Summary of Rule.

Several exchanges submitted petitions for exemptions for various contracts from the dual trading prohibitions in Commission Regulation 155.5. The prohibition prevents a broker from trading for his own account and other specified accounts during the same trading session in which he has executed customers orders in an affected contract market.

OIG Review.

OIG discussed the issue with relevant staff and made comments and raised questions. The Commission has approved unconditional exemptions for the COMEX Division of the New York Mercantile Exchange, the New York Cotton Exchange, and the Coffee Sugar & Cocoa Exchange. The Commission is currently considering exemptions for the Chicago Board of Trade and the Chicago Mercantile Exchange.

RULE REVIEWS INITIATED THIS REPORTING PERIOD

1. Proposal to Permit Agricultural Trade Options

Summary of Action.

The CFTC staff prepared a paper discussing various alternatives relating to agricultural trade options. Currently the trading of such options is prohibited except when executed on designated contract markets.

OIG Review.

The OIG raised questions about certain characterizations of political stability of foreign countries. The office also asked about the meaning of named market practices. Staff responded in a positive way to such questions.

2. Proposed Rulemaking Relating to Rules 1.55, 1.65(a)(3), 30.6(a), and 33.7(a)

Summary of Action.

The proposed rule amendments would relieve futures commission merchants and introducing brokers from providing risk disclosure documents to categories of financially accredited customers before opening an account for such customers.

OIG Review.

OIG raised issues about the interplay of the risk disclosure documents and the general obligation to provide material information.

3. Description of the Office of the Inspector Generals

Summary of Action

A task force prepared a draft describing an Inspector General's Office for use by Congressional staff.

OIG Review

OIG noted an inaccuracy in the description of IG offices created by the 1988 amendments to the Inspector General Act. The requested changes were made.

4. Audit Trail Review

Summary of Action

Staff reviewed the audit trails of several exchanges seeking exemption from the ban on dual trading.

OIG Review

OIG made suggestions and raised questions with staff concerning its analysis. The Office referred staff to an OIG audit report of floor surveillance by CFTC staff for potential relevance. Staff took account of the report.

AUDIT REPORTS OVER SIX MONTHS OLD

CORRECTIVE ACTION NOT COMPLETED

There were no instances of audit reports over six months old where corrective action had not been completed.

CORRECTIVE ACTION COMPLETED

There were no instances of reports issued before the commencement of the reporting period for which corrective action had been completed by the end of the reporting period.

MANAGEMENT DECISION NOT MADE

There were no instances of reports issued before the commencement of the reporting period for which a management decision had not been made by the end of the reporting period.

SUMMARY OF MATTERS REFERRED TO PROSECUTIVE AUTHORITIES

No matters were referred to prosecutive authorities during the reporting period.

SUMMARY OF EACH REPORT MADE TO THE AGENCY HEAD
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No reports were made to the agency head under section 6(b)(2) concerning information or assistance unreasonably refused or not provided.

REVISED MANAGEMENT DECISIONS

No management decisions were revised during the reporting period.

INSPECTOR GENERAL DISAGREEMENT

The Inspector General does not disagree with any management decisions on OIG recommendations.

CURRENT AUDITS

The audit agenda and priorities for the OIG are determined based on the following factors:

- Statutory and regulatory requirements;
- Adequacy of internal control systems as indicated by vulnerability assessments and internal control reviews recommended by OMB Circular A-123;
- Changes in the program conditions or particular vulnerability of the organization, program, activity, or function to problems or deficiencies;
- Current and potential dollar magnitude and likely benefits of a review on the efficiency or effectiveness of CFTC programs and operations;
- Management priorities and improvements that may be possible;
- Results of audits of CFTC programs and operations by other Federal agencies; and
- Availability of audit resources and the potential opportunity costs to the agency.

The audit agenda and summary of progress for each audit which has not yet been completed is summarized below. New agenda items periodically will be added, as appropriate, along with a description of the audit objective for each.

1. Review of Enforcement Information Requirements

Objectives.

The mission of the Division of Enforcement is to investigate and prosecute fairly and effectively violations of the Commodity Exchange

Act and the Commission's regulations in order to safeguard the integrity of U.S. futures and options markets and to protect market participants and futures and options customers. In the course of its activities, the division, with headquarters and regional components, plans and follows an often complex course to achieve its objectives and receives and creates a huge volume of documents which must be logically stored and regularly accessed. To support the accomplishment of these tasks, the division is relying on a collection of very old manual and automated systems to track the progress of activities and to store and retrieve documents. The objectives of this review are to determine what the information needs of all levels in the division are, whether the information needs are being met, and if the required information can be created, stored, and retrieved in a more effective and efficient manner.

Status.

The joint OIG/Enforcement team produced extensive and detailed narrative flow charts of the current operational and administrative functions and processes of the Division of Enforcement and delivered them to the Division of Enforcement and the Office of Information Resources Management (OIRM). These products were designed to inform the analysts of OIRM of the inner workings of the Division of Enforcement and to serve as the base on which the information requirements of the Division of Enforcement will be defined.

In September 1997, in a joint meeting of representatives of the Division of Enforcement, the Office of the Inspector General, and the Office of Information Resources Management (OIRM), the principals made commitments of six staff years of effort from OIRM and approximately three staff years of effort from Enforcement to define the system requirements of Enforcement. The agreed-upon plan calls for the development and implementation of a core system embracing the most vital functions of the Division of Enforcement and the progressive development and implementation over time of modular additions to the core system until all of the automation needs of the Division are met.

The development effort is expected to get underway in the middle of November 1997 with projected delivery of the first efforts at a core system within six months.

2. Audit of Compliance with the Federal Managers' Financial Integrity Act

Objectives.

In support of OMB Circular A-123 (Revised), the Inspector General will evaluate, provide technical assistance, and advise the agency head as to whether the agency's review and evaluation process was conducted in accordance with the circular's requirements.

Status.

The OIG reviewed all of the draft submissions of the various organizational entities assigned to produce internal control reviews by the CFTC Internal Control Committee. After a number of iterations, this review resulted in refocusing of some submissions and technical corrections of others. The OIG will review all of the final submissions and advise the Chairperson of the results of its review in its annual assurance letters.

3. Imprest Funds

Objectives.

The OIG will review expenditures from four CFTC imprest funds to determine compliance with the Department of the Treasury Manual of Procedures and Instructions for Cashiers. Specifically, the audits are designed to verify that all funds were properly accounted for; the cashier followed procedures that adequately protected the funds from loss or misuse; the cashier did not make unauthorized use of the funds, and appropriate closing procedures were followed. All four imprest funds have been closed. The funds were maintained in Washington, D.C.; Chicago, Illinois; Los Angeles, California; and Kansas City, Missouri.

Status.

The OIG has scheduled final audits of the Los Angeles, California, and Washington, D.C. imprest funds for the first half of the fiscal year.

GAO LIAISON

The OIG is charged with providing policy direction for, and conducting, supervising, and coordinating audits and investigations relating to CFTC programs and operations. In addition, the OIG is required to recommend policies for, and conduct, supervise, and coordinate with other Federal agencies, state and local Governmental agencies, and nongovernmental entities, audits, investigations, and evaluations regarding the economy, efficiency, and effectiveness of CFTC programs and operations.

GAO also conducts audits of CFTC activities, and OIG plans its audits so as not to duplicate GAO's efforts. Moreover, OIG in its audit activities identifies the goals of each audit and the methods of reaching the goals so as to minimize the requirements placed on CFTC resources.

<p style="text-align: center;">STRATEGIC PLAN FOR THE OFFICE OF THE INSPECTOR GENERAL</p>

INTRODUCTION

The Office of the Inspector General (OIG) in the Commodity Futures Trading Commission (CFTC) was created in accordance with the Inspector General Act of 1978 (P.L. 95-452), as amended by the Inspector General Act Amendments of 1988 (P.L. 100-504). The OIG was established to create an independent unit to:

- Promote economy, efficiency, and effectiveness in the administration of CFTC programs and operations and to detect and prevent fraud and abuse in such programs and operations;
- Conduct and supervise audits and investigations relating to the administration of CFTC programs and operations;
- Review existing and proposed legislation and regulations and to make recommendations concerning their impact on the economy and efficiency of CFTC programs and operations or the prevention and detection of fraud and abuse; and
- Keep the Chairman and Congress fully informed about any problems or deficiencies in the administration of CFTC programs and operations and provide recommendations for correction of these problems or deficiencies.

Accordingly, the OIG has established three programs to carry out its responsibilities: audit, investigation, and legislative and regulatory review. A summary of those programs follows.

AUDIT

The primary objectives of the OIG are to promote long-term efficiency and effectiveness in the administration and operation of the Commission and to protect against fraud and abuse.

The key to effectively and efficiently managing the Commodity Futures Trading Commission is information. Top level managers and decision makers require a steady stream of organized data on the effects of their policy decisions and resource allocations on the operations of the Commission. Once having made the decision to change resource levels or policy, managers must receive accurate and timely reports of the operational effects of their decision so they can determine if the change is in the direction and of the magnitude predicted. In the absence of such information, top level managers cannot adequately perform their jobs.

A number of obstacles to acquiring and transmitting the desired information to decision makers may exist in some programs. Principal among them is the Commission's apparent difficulty in many instances in tracking the progress of a particular action across organizational lines within the Commission.

A simple example is the Reparations Program prior to the installation of an OIG recommended unified, Commission-wide tracking system. Complaints are received and processed and hearings are held in the Office of Proceedings; appeals of initial decisions in reparations cases are transmitted to the Office of General Counsel where proposed Commission opinions are drafted; and appeals are decided by the Commission with the paperwork being handled by the Office of the Secretariat. Each office involved in the process had a separate tracking system without ties to the tracking systems in the offices preceding them or following them in the process. Each office treated the case as if it were brand new to the Commission when they received it. As a result, there was no provision for tracking information across organizational lines. If the Chairman wanted to know how much time was spent on the average reparations case of a particular description at each stage in the process, that information was unavailable without an extensive expenditure of manual labor.

A related problem is the difficulty the Commission has in associating resources devoted to an activity with the results of that activity. The Commission does a good job of tracking resources expended. It can determine how much staff time and material at what cost was spent in a particular activity. Some Commission organizations can even associate costs with particular projects. What a program manager may have great difficulty doing, however, is telling a decision maker that for a specific level of increase in resources, the program manager will deliver a specific level of increased output. Without this information from all programs

competing for limited resources, decision makers cannot make reasoned resource allocation judgments. Decision makers are forced to rely on intuition and anecdotal evidence.

To increase the efficiency and the effectiveness of the management of CFTC programs and operations, the OIG will, in addition to the conduct of mandatory audits, concentrate its audit resources on the identification of information voids and the lack of continuity in the flow of information across organizational lines from the beginning of a process until its conclusion. The OIG will recommend the implementation of any system improvements where the benefits of implementing the changes exceed the costs.

INVESTIGATION

The Inspector General Act of 1978, as amended, provides that the Inspector General may receive and investigate complaints or information from the Commission's employees concerning the possible existence of an activity constituting a violation of law, rules or regulations, or mismanagement, gross waste of funds, abuse of authority or a substantial and specific danger to the public health and safety.

The OIG has to date conducted only a reactive investigative program chiefly relying on unsolicited employee complaints as the source of investigative leads. This reactive program has resulted in only a handful of investigations per year. This strategy was followed because the OIG believed that an independent regulatory agency such as CFTC without grant money or substantial contracts to award was not likely to generate a substantial investigative workload.

To insure that employee complaints could easily reach the OIG, a 24 hour hotline was established in February 1993 to receive complaints. The hotline's existence is publicized on the back cover of the agency-wide telephone book and in this semiannual report.

Because of the reactive nature of the OIG's investigative program, no investigative agenda has been established.

LEGISLATIVE AND REGULATORY REVIEW

Because of the importance of this activity in an economic regulatory agency, the OIG reviews proposed and final CFTC regulations and legislation and selected exchange rules using five basic criteria: Whether the agency: (1) has identified specifically the problem(s) to be addressed by the proposal; (2) has defined through case study or data analysis a clear link between the proposed solution and the identified problem(s); (3) has specified clearly the

means to effectively and efficiently enforce the proposal; (4) has assessed the likely efficiency and effectiveness of alternative solutions; (5) can reasonably document that the proposal will yield positive net benefits over the long term; and (6) has met the requirements of the Regulatory Flexibility Act and the Paperwork Reduction Act.

The Regulatory Flexibility Act requires the agency to evaluate the impact of its regulations on small entities. The Paperwork Reduction Act requires the agency to manage effectively and efficiently its information collections so that they are the least burdensome necessary to achieve the stipulated objectives.

Because the OIG does not initiate legislation or, generally, regulations, the OIG legislative and regulatory review program is reactive to the legislative and regulatory proposals developed by others. Accordingly, no independent legislative and regulatory review agenda has been established.

AUDIT AGENDA

ANNUAL AUDITS

The following audit is performed on an annual basis.

Audit of Compliance with the Federal Managers' Financial Integrity Act

In support of OMB Circular A-123 (Revised), the Inspector General will evaluate, provide technical assistance, and advise the agency head as to whether the agency's review and evaluation process was conducted in accordance with the circular's requirements.

OTHER AUDITS

The OIG intends to focus the balance of its audit resources on insuring that the Chairperson, the Commissioners, and program managers have timely, useful information on the progress of CFTC's programs in meeting their goals and objectives. For example, emphasis will be placed on determining whether all managerial levels engaged in a process can track the progress of their various programs. The tracking systems required in many, though not all, programs will cross formal organizational lines.

These audits will entail a cataloging and description of all of the manual and automated systems used by an organization to gather information on its use of resources, the results of the devotion of those resources (including definitions of measurements of accomplishment), and the reporting of results and associated costs to

the upper level managers in the Division and to the Chairman and the Commissioners. Cataloging of these decision support systems will be followed by an assessment of whether all concerned officials are timely receiving the information they require to efficiently allocate resources to those uses which best accomplish the priorities of the Commission. If any elements are lacking in the information systems, they will be identified and improvements will be recommended if they can be implemented in a cost/beneficial manner.

If recommendations are successfully implemented, the proposed systems should allow the Chairman, the Commissioners, and concerned program managers to track progress of a particular program across organizational lines and to quickly determine the effects, if any, of changes in policy, procedure, or staffing.

The first step in accomplishing this goal will be to concentrate on documenting, and recommending the improvement and/or development of tracking systems in every program element throughout the Commission.

RESOURCES REQUIRED

The OIG estimates that approximately one and one-half staff years of effort will be devoted over each of the next five years to the audits described in "Other Audits" above. The "Annual Audits" are expected to consume approximately one-half staff year per year.

CONTACTING OFFICE OF THE INSPECTOR GENERAL
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The OIG is located in Room 4092 at 1155 21st Street N.W., Washington, D.C. 20581. The telephone number is (202)418-5110. The facsimile number is (202)418-5522. The hotline number is (202)418-5510. Regular business hours are between 8:30 AM and 5:00 PM, Monday through Friday, except Federal holidays.

Table 1

Reports Issued with Questioned Costs
(October 1, 1997 - March 31, 1998)

	Number	Dollar Value (Thousands)	
	-----	-----	-----
	Questioned Costs	Unsupported Costs	-----
A. For which no management decision has been made by the commencement of the reporting period.....	0	0	0
B. Which were issued during the reporting period.....	0	0	0
Subtotals (A + B).....	0	0	0
C. For which a management decision was made during the reporting period.....	0	0	0
(i) dollar value of disallowed costs.....	0	0	
(ii) dollar value of costs not disallowed.....	0	0	
D. For which no management decision has been made by the end of the reporting period.....	0	0	0

Table 2

Reports Issued with Recommendations
That Funds be Put to Better Use
(October 1, 1997 - March 31, 1998)

	Number	Dollar Value (Thousands)
	-----	-----
A. For which no management decision has been made by the commencement of the reporting period.....		0 0
B. Which were issued during the reporting period.....	0	0
Subtotals (A + B).....		0 0
C. For which a management decision was made during the reporting period.....		0 0
(i) dollar value of recommendations that were agreed to by management.....		0 0
(ii) dollar value of recommendations that were not agreed to by management.....		0 0
D. For which no management decision has been made by the end of the reporting period.....		0 0

October 30, 1997

TO: Brooksley Born
Chairperson

FROM: A. Roy Lavik
Inspector General

SUBJECT: Semiannual Report of the Office of the Inspector
General

Attached is the Semiannual Report of the Office of the Inspector General for the period from April 1, 1997 through September 30, 1997.

This report is submitted to you in accordance with the requirements of Section 5 of the Inspector General Act of 1978, as amended.

I appreciate your continuing support of this office.

Attachment